

September 29, 2008

Investment Policy Subcommittee
California Public Employees' Retirement System
Lincoln Plaza, 400 P Street
Sacramento, CA 95814

Re: Statement of Investment Policy for Real Estate

Dear Members of the Investment Policy Subcommittee:

PCA Real Estate Advisors, Inc. ("PCA RE") reviewed Staff's recommendation to the Policy Subcommittee to approve the above referenced policy ("Real Estate Policy"). We concur with the recommendation, subject to the comments expressed in this letter.

Background

In September 2007, the Investment Committee approved a new Real Estate Strategic Plan ("Strategic Plan") for the Real Estate Portfolio in which PCA RE provided certain recommendations. One of these recommendations was to review the existing policies in an effort to reflect a new investment approach with a global orientation and to streamline them for more effective investment management. In parallel, the Investment Office had initiated the Investment Policy Review and Consolidation Project ("Project") in an effort to standardize the investment policies across all asset classes. PCA RE is a participant in this on-going Project.

Proposed Policy Structure

The CalPERS Real Estate Staff ("Staff") has prepared an overarching real estate policy, similar to AIM and ILAC, which maintains the Board's directives and intent. Furthermore, this Real Estate Policy incorporates necessary items from the adopted Strategic Plan, including new sector classifications, specifically Core, Value-Add and Opportunistic, and leverage limits for both the portfolio level as well as each sector classification level. In addition, procedural elements as well as obsolete delegations have been removed to further refine the Real Estate Policy and ensure it is clear and concise.

Certain programmatic policies, including Housing, CURE and Public Real Estate Securities, are maintained as separate documents due to their complexities and are included as attachments to the Real Estate Policy. We understand that these separate investment policies are in different stages of review and need to be updated. Any proposed modifications will be provided to the Policy Subcommittee for consideration and approval. The Public Real Estate Securities policy has been reviewed and is attached with recommended modifications.

PCA Real Estate Advisors, Inc.

Staff Internal Procedures Manual

The Real Estate Policy provides high-level investment parameters to which investment participants are required to adhere. The Real Estate Portfolio is large and complex involving many different participants both internal and external to CalPERS. As such, we believe it is vitally important that investment management procedures are updated and maintained in the Staff Internal Procedures Manual referenced by the Staff. We further recommend that a defined timeline is established to ensure the preparation of updated investment management procedures are completed by September 30, 2009. Preparation of written procedures will provide guidance to Staff, consultants and managers/partners in the day-to-day execution of the investment process.

Transition to New Policy

As noted by Staff, the real estate portfolio and all existing operating agreements need to be reviewed to ensure they comply with the new policy. We understand Staff will complete their analysis and report their findings to the Investment Committee by June 30, 2009. We will assist Staff with this review.

Delegations

The proposed investment policy necessitates the need to review the delegation document approved in February 2007 because the sector classifications for the real estate portfolio are being changed in the Real Estate Policy. We will assist Staff with this review and note that Staff is proposing that such modifications be presented to the Investment Committee in February 2009.

Conclusion

In summary, PCA RE concurs with Staff's recommended policy approach, and specifically with the Real Estate Policy as detailed in Agenda Item 6 of the October 20, 2008 Policy Subcommittee. We believe this new policy structure will aid all participants in the investment management of CalPERS' Real Estate Portfolio. I will be at the meeting on October 20th to answer any questions you may have regarding the proposed Real Estate Policy.

Very truly yours,



Nori Gerardo Lietz
Managing Director

Cc: Anne Stausboll
Ted Eliopoulos
Jim Hurley
Mark Bullen
Pam Alsterlind